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SUBJECT: ALBANIA: ELECTRICITY UPDATE

REF: TIRANA 811

Summary

¶1. (SBU) Albania's electricity generating capacity is totally dependant on hydroelectric power. So far, rainfall in 2008 has been below normal, causing key reservoir levels to drop. The GOA, facing parliamentary elections in June 2009, fears a return to the 2006/2007 electricity crisis, during which most of the country faced blackouts of up to 16 hours per day. While the GOA has taken important steps to deal with its chronic electricity problems, such as privatizing the distribution operator, adding transmission line capacity, licensing new hydroelectric power plants (HPPs), and beginning construction of a thermal power plant, none of these measures will begin to take effect until after the elections. Compounding the problem is the artificially low price of electricity to consumers. The GOA will not raise prices before the elections, forcing it to import electricity at prices well above consumer retail prices. If the GOA cannot generate enough of its own cheap electricity, its budget deficit will continue to balloon, exacerbating the effects of the global financial crisis on Albania.
End Summary.

Plugging the Leaks

¶2. (U) On October 29, the GOA finalized the award for the privatization of the Distribution System Operator (DSO) to the Czech company CEZ Group, one of the ten largest energy companies in Europe. CEZ will pay USD 130 million for 76 percent of DSO and will also assume DSO's long term debt of USD 180 million. CEZ has agreed to the GOA's plan to reduce technical (line and transformer) and non-technical (theft and non-payment) losses from the present 35 percent to 15 percent by 2014.

¶3. (SBU) This privatization is a major step forward for the entire energy sector, which has suffered from lack of capital investment and technical expertise, and widespread corruption. Theoretically, CEZ could make a major difference in how much electricity gets to consumers and at what net cost to the GOA. How much of a free hand CEZ will have is another question. The ruling party in the past has used electrical service to reward its supporters and harass its opponents. For instance, in February 2007, during the height of the most recent energy crisis, EconOff was meeting with the Prefect (ruling political party boss of the region) of Himare, a southern coastal village. The entire region was dark, with just a few lights powered by generators. A villager from a nearby village approached the Prefect and asked to have their lights turned on for a few hours so that they could conduct a funeral. The Prefect made one call and the lights came on immediately. The Prefect was running for mayor of Himare against the incumbent from another party.

Water Power

¶4. (U) Almost all of Albania's electricity comes from hydroelectric

power plants (HPP), which have not been able to meet domestic demand for at least the last eight years. Demand for 2005, 2006 and 2007 held steady at about 6.5 TWh (terrawatt-hours), while HPP generation for wet years 2005 and 2006 was about 5.4 TWh. 2007, however, was abnormally dry, with below average rainfall from June 2006 through late 2007. Generation in 2007 fell 47 percent requiring a five-fold increase in imports to 2.8 TWh, costing USD 250 million. Reservoirs in June 2006 were full, as they were in June of this year.

Unfortunately, 2008 seems to be following the pattern of 2006 and power parastatal KESH expects to import as much electricity in 2008 as in 2007, but at a higher price. The GOA is trying to keep as much water in the reservoirs as possible coming into the 2009 elections to ensure the minimum possible power disruptions. But despite large imports, the water level at Fierza Lake (the highest lake in Albania's critical Drin Cascade) is already too low to guarantee uninterrupted supply since Albania lacks the interconnection capacity to import sufficient electricity.

¶5. (U) The GOA, supported by World Bank studies, plans to exploit more of Albania's mountainous terrain and many rivers. The Kalivac HPP is under construction and construction of the Ashta HPP in northern Albania is expected to start soon. The GOA has signed 25 concession agreements for construction of small HPPs and is evaluating 87 additional proposals.

Alternatives?

¶6. (U) The GOA has considered, announced, and then rejected (for various reasons) many proposals for TPPs. The only one actually started is the 97 MW gas-fired TPP near Vlore, which is scheduled to come on line in summer 2009. However, initial indications are that electricity produced by that TPP will cost at least as much as

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imported electricity. Several other large TPPs are being considered, including the ASG LNG gassification and generation project near Fier (400 MW expanding to 1.2 GW) and an 800 MW coal-fired plant (expandable to 1.3 GW) planned by Italian energy company ENEL in the new Porto Romano energy park near Durres.

(Note: The ASG project was announced by the GOA, World Bank, and other international institutions in the spring of 2006. ASG has not been able to raise capital for the project and has not made any concrete steps forward. On November 19, the GOA cancelled ASG's license for an undersea cable to Italy. End note.) Current HPP capacity is about 1.5 GW, so if these TPP projects are completed, Albania could become a net exporter of electricity to the region in the foreseeable future. Alternative energy from wind, solar and nuclear have been proposed and considered, and some licenses have been granted, but so far, no one has been able to raise capital to begin any of the projects.

Electricity Pricing

¶7. (U) The IMF has insisted that the GOA raise retail electricity prices to reduce Albania's budget deficit. While the GOA is not expected to comply, at least until after the elections, a widening deficit could cause other financial problems related to the global financial crisis (reftel). On the other hand, the global economic slowdown could cause an electricity glut in the region, reducing Albania's cost of import.

Comment

¶8. (SBU) CEZ has its work cut out for it. While anyone walking through most of Tirana's neighborhoods can see obvious examples of electricity theft, such as wires connecting residences directly to overhead power lines, little has been done to disconnect these illegal users. A large group of non-payers include entire villages in politically-favored areas. How successful CEZ will be in making a dent in non-technical losses remains to be seen. As for new generating projects, the GOA opened the floodgates with its 2006 law on concessions, allowing anyone to submit unsolicited proposals. Since then, it has been swamped with proposals it does not have the

capacity to evaluate properly, resulting in lack of action on worthwhile projects.

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